Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

# Office of the Superintendent of Financial Institutions

## 2010-11 Estimates

## Part III – Report on Plans and Priorities

**Minister of Finance**

OSFI BSIF

Canada

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## Message from the Superintendent

The global financial crisis has demonstrated the benefits of strong prudential regulation and supervision, and strong risk management at financial institutions and pension plans.

The Office of the Superintendent of Financial Institutions (OSFI) is tasked with overseeing the solvency of federal financial institutions in the interest of depositors and policyholders, and protecting members in private federal pension plans.

While financial markets have stabilized, risk and uncertainty in the global economy persists, and this is expected to have a continuing impact on the financial institutions and pension plans subject to OSFI oversight. Under the duress of recent events, we discovered that the strength of the Canadian financial system is due to Canada's overall policy framework, the quality of OSFI's supervision and regulation, the level of cooperation and communication among Financial Institutions Supervisory Committee (FISC) partners (OSFI, the Bank of Canada, the Canada Deposit Insurance Corporation, the Financial Consumer Agency of Canada and the Department of Finance) and the risk management skills of Canada's financial institutions.

As knowledge sharing is an important element of robust risk management, in the coming year OSFI will continue its annual risk management seminars for Chief Risk Officers of banks and insurance companies to communicate our expectations, to share best practices and developments, and to provide an opportunity for dialogue with OSFI supervisors and regulators. We will continually adjust operations to address emerging issues (such as expanding stress testing, and addressing risk associated with compensation plans, governance and information management systems at financial institutions). In the increasingly interconnected world of global finance, supervisory colleges (including "living wills") provide an opportunity for information sharing and dialogue between some of Canada's major financial institutions and the host regulators of countries in which these institutions do business. The first Financial Stability Board-sanctioned college took place in February 2009, with a number of key global supervisors of the Royal Bank attending. Similar Colleges are planned with other leading institutions in 2010.

OSFI will also continue to be active internationally with fellow members of the Basel Committee on Banking Supervision (BCBS) and the international Senior Supervisors Group. We will participate in meetings of the Financial Stability Board and the International Association of Insurance Supervisors. These forums are increasingly important as they represent a way to enhance communication with international peers on the day-to-day challenges that arise in the global banking system. Areas under review in these international groups will include the need to develop a strengthened capital framework, enhanced oversight of liquidity, research in relation to systemic risk and systemically important institutions, markets and instruments, and the need to shine more light onto unregulated parts of the financial system.

This 2010–2011 Report on Plans and Priorities notes several areas where OSFI will focus. Through these initiatives, OSFI will play its part in contributing to a strong domestic financial system, one in which Canadians can place their trust.

# Section I – Agency Overview

## 1.1 Summary Information

### Raison d'être

The Office of the Superintendent of Financial Institutions (OSFI) supervises and regulates all federally incorporated or registered deposit-taking institutions (e.g., banks), life insurance companies, property and casualty insurance companies, and federally regulated private pension plans.

OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.

The Office of the Chief Actuary (OCA) is a separate unit within OSFI and provides expert actuarial services and advice on the state of various public pension plans and on the financial implications of options being considered by policy makers. In conducting its work, the OCA plays a vital and independent role towards a financially sound and sustainable Canadian public retirement income system.

### Responsibilities

OSFI's legislated mandate was implemented in 1996 and under the legislation, OSFI's mandate is to:

- Supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements, respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk; and
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

OSFI's prudential mandate supports a safe and sound Canadian financial system.

OSFI's legislation also acknowledges the need to allow institutions to compete effectively and take reasonable risks. It recognizes that management, boards of directors, and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

## Strategic Outcomes

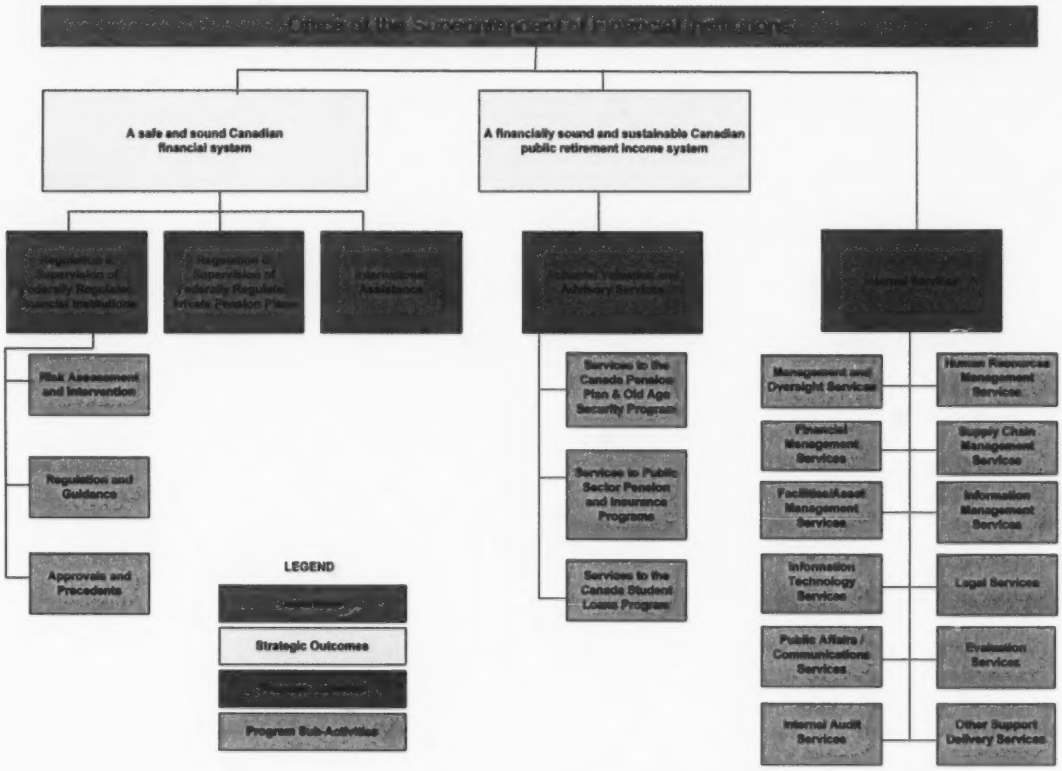
Primary to OSFI's mandate and central to its contribution to Canada's financial system are two strategic outcomes:

*1. A safe and sound Canadian financial system.*

*2. A financially sound and sustainable Canadian public retirement income system.*

## Program Activity Architecture

The chart below illustrates OSFI's framework of program activities and program sub-activities, which roll-up and contribute to progress toward the Strategic Outcomes.


A safe and sound Canadian financial system
A financially sound and sustainable Canadian public retirement income system
Risk Assessment and Intervention
Regulation and Guidance
Approvals and Precedents
Services to the Canada Pension Plan & Old Age Security Program
Services to Public Sector Pension and Insurance Programs
Services to the Canada Student Loans Program
Management and Oversight Services
Financial Management Services
Facilities/Asset Management Services
Information Technology Services
Public Affairs / Communications Services
Internal Audit Services
Human Resources Management Services
Supply Chain Management Services
Information Management Services
Legal Services
Evaluation Services
Other Support Delivery Services
LEGEND
Strategic Outcomes
Program Sub-Activities

## Program Activity Architecture Crosswalk

OSFI's PAA was updated in May 2009, in order to articulate with greater precision the agency's long-term commitments, and the resulting enduring benefits to Canadians that stem from OSFI's mandate. While the structure of the PAA has not been altered, the following changes were included in this update:

- Name changes for Strategic Outcomes and Program Activities to improve the clarity of OSFI's programs and align their naming convention more closely to the definition stated in the Treasury Board Secretariat's *Policy on Management, Resources and Results Structure*.
- Description changes for Strategic Outcomes and Program Activities to improve the overall description of, and clarify the rationale for, the program activity and/or sub-activity.

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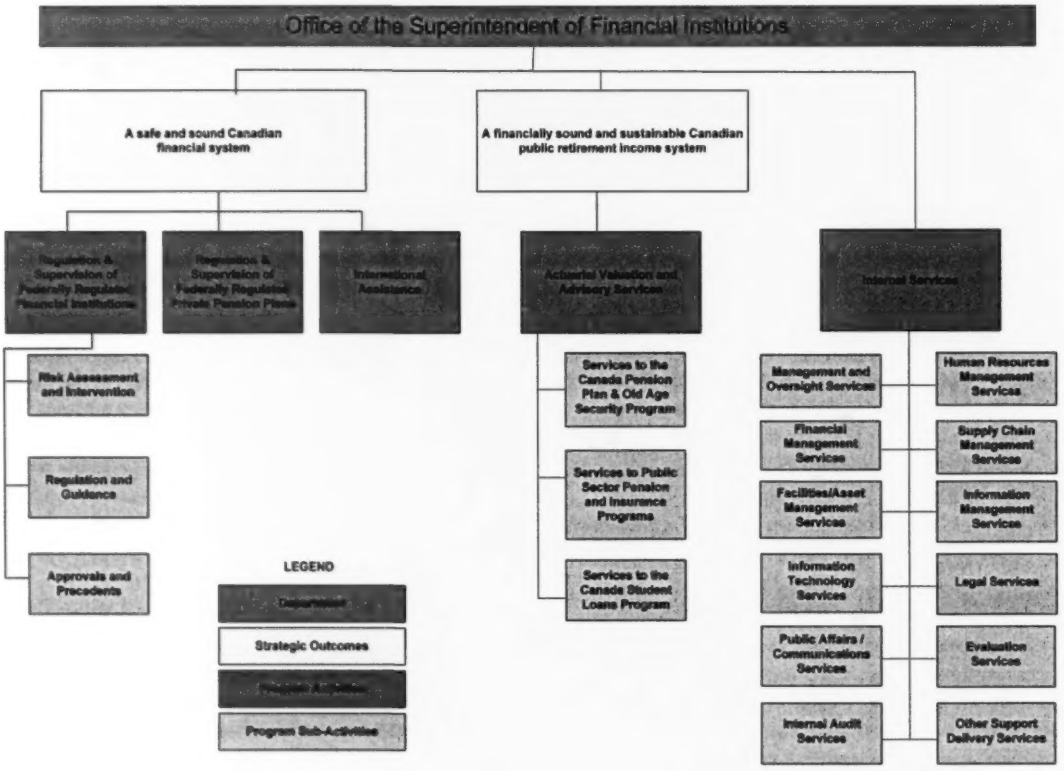
Office of the Superintendent of Financial Institutions
A safe and sound Canadian financial system
A financially sound and sustainable Canadian public retirement income system
Regulation & Supervision of Federally Regulated Financial Institutions
Regulation & Supervision of Federally Regulated Private Pension Plans
International Assistance
Actuarial Valuation and Advisory Services
Internal Services
Risk Assessment and Intervention
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# 1.2 Planning Summary

## Financial Resources ($ millions)

| 2010-11 | 2011-12 | 2012-13 |
|---|---|---|
| $109.2 | $123.3 | $116.7 |

The financial resources table above provides a summary of the total planned spending for OSFI for the next three fiscal years.[1]

## Human Resources (Full-time Equivalent – FTE)

| 2010-11 | 2011-12 | 2012-13 |
|---|---|---|
| 543 | 544 | 544 |

The human resources table above provides a summary of the total planned human resources for OSFI for the next three fiscal years.

| **Strategic Outcome 1:** A safe and sound Canadian financial system. | | | | | | |
|---|---|---|---|---|---|---|
| Performance Indicators | | | | | | Targets |
| % of knowledgeable observers[2] that rate OSFI as somewhat or very effective in monitoring and supervising their institution or pension plan. | | | | | | 70% |
| Percentage of estimated recoveries on failed institutions (amount recovered per dollar of claim). | | | | | | 90% |
| Percentage of estimated recoveries on pension plans that have terminated under-funded. | | | | | | 85% |
| Percentage of respondents[3] that rate the assistance / presentations provided as relevant to their work. | | | | | | 80% |
| **Program Activity** | **Expected Results** | **Forecast Spending ($ millions)** 2009-10 | **Planned Spending ($ millions)** 2010-11 | 2011-12 | 2012-13 | **Alignment to Gov't of Canada Outcomes** |
| Regulation and Supervision of Federally Regulated Financial | Protect depositors and policy holders while recognizing that all failures cannot be prevented. | 52.9 | 54.6 | 56.5 | 58.5 | • Strong economic growth<br>• A safe and secure world |

[1] Additional information regarding the Financial and Human Resources trends can be found in the Expenditure Profile section of this report (page 15).

[2] Senior Executives, Plan Administrators, and professionals who act on behalf of federally regulated financial institutions and pension plans.

[3] Foreign regulators who receive technical assistance from OSFI's International Advisory Group.

| | | | | | | |
|---|---|---|---|---|---|---|
| Institutions | | | | | | through international co-operation |
| Regulation and Supervision of Federally Regulated Private Pension Plans | Protect the financial interests of federally regulated private pension plan members and beneficiaries. | 4.6 | 5.3 | 5.3 | 5.1 | • Strong economic growth<br>• Income security for Canadians |
| International Assistance | Emerging market economies are more informed about current approaches to regulatory and supervisory systems, and deploy them to the extent possible. | 1.7 | 1.6 | 1.7 | 1.8 | • Strong economic growth<br>• A safe and secure world through international co-operation |
| **Total for SO 1** | | **59.2** | **61.5** | **63.5** | **65.4** | |

**Strategic Outcome 2:** A financially sound and sustainable Canadian public retirement income system.

| Performance Indicators | Targets |
|---|---|
| Panel of Canadian peer actuaries selected by an international and independent body attest that the Chief Actuary and staff have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that these reports fairly communicate the results of the work performed. | Unanimous agreement amongst peers |
| Adequacy of professional experience of the Chief Actuary and staff.<br>AND/OR | Unanimous agreement amongst peers |
| Compliance with Canadian and international professional standards. | Unanimous agreement amongst peers |

| Program Activity | Expected Results | Forecast Spending ($ millions) | Planned Spending ($ millions) | | | Alignment to Gov't of Canada Outcomes |
|---|---|---|---|---|---|---|
| | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | |
| Actuarial Valuation and Advisory Services | Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice. | 4.2 | 4.3 | 4.2 | 4.4 | • Income security for Canadians |
| **Total for SO 2** | | **4.2** | **4.3** | **4.2** | **4.4** | |

# 1.2 Planning Summary

## Financial Resources ($ millions)

| 2010-11 | 2011-12 | 2012-13 |
|---|---|---|
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| Percentage of estimated recoveries on pension plans that have terminated under-funded. | 85% |
| Percentage of respondents[3] that rate the assistance / presentations provided as relevant to their work. | 80% |

| Program Activity | Expected Results | Forecast Spending ($ millions) | Planned Spending ($ millions) | | | Alignment to Gov't of Canada Outcomes |
|---|---|---|---|---|---|---|
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| **Total for SO 1** | | **59.2** | **61.5** | **63.5** | **65.4** | |

**Strategic Outcome 2:** A financially sound and sustainable Canadian public retirement income system.

| Performance Indicators | Targets |
|---|---|
| Panel of Canadian peer actuaries selected by an international and independent body attest that the Chief Actuary and staff have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that these reports fairly communicate the results of the work performed. | Unanimous agreement amongst peers |
| Adequacy of professional experience of the Chief Actuary and staff. AND/OR | Unanimous agreement amongst peers |
| Compliance with Canadian and international professional standards | Unanimous agreement amongst peers |

| Program Activity | Expected Results | Forecast Spending ($ millions) | Planned Spending ($ millions) | | | Alignment to Gov't of Canada Outcomes |
|---|---|---|---|---|---|---|
| | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | |
| Actuarial Valuation and Advisory Services | Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice. | 4.2 | 4.3 | 4.2 | 4.4 | • Income security for Canadians |
| **Total for SO 2** | | **4.2** | **4.3** | **4.2** | **4.4** | |

## Contribution of Priorities to Strategic Outcomes

| Operational Priorities | Type | Links to Strategic Outcome | Description |
|---|---|---|---|
| Enhanced Identification of Emerging Risks | Ongoing | SO 1 | ▪ Continue to:<br>▪ improve our ability to identify, monitor and report on emerging risks including system-wide risks that may have a material impact on Canadian financial institutions, via enhanced international and domestic monitoring, and research and intelligence gathering;<br>▪ update and implement changes to the Supervisory Framework;<br>▪ refine the monitoring of risks facing pension plans, including the impact of rule changes, and adjust supervisory processes as warranted;<br>▪ perform selected comparative reviews of FRFIs in key risk areas.<br>▪ Implement enhanced liquidity assessment and monitoring practices. |
| Institutional and Market Resilience | Ongoing | SO 1 | ▪ Internationally, continue to participate in discussions (such as the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors, and Senior Supervisors Group) to identify and respond to the key issues arising from global financial events, including future changes to regulatory approaches and requirements, and to make recommendations for action.<br>▪ Domestically, continue work with FISC partners and the regulated industries on similar issues in the Canadian context.<br>▪ Maintain strong communications on, and continue to promote improved risk management practices including: stress testing methodologies, executive compensation practices, liquidity management, and corporate governance in institutions, in order to strengthen individual Federally Regulated Financial Institution (FRFI) preparedness and overall market resilience. |
| Capital Adequacy | Ongoing | SO 1 | ▪ Continue to:<br>▪ actively participate in international fora (BCBS, G20, and FSB) to contribute to the development of internationally agreed bank capital standards;<br>▪ review and improve domestic regulatory capital requirements and assessment practices through steps such as stress testing and implementing guidance agreed at the international level while taking into account identified emerging risks;<br>▪ enhance risk sensitivity of capital requirements in the insurance sector. |

| Management Priorities | Type | Links to Strategic Outcome | Description |
|---|---|---|---|
| People | Ongoing | SO 1 & SO 2 | ▪ Identify changing human resources requirements to ensure timely availability of qualified staff and the assignment of these resources based on identified risks and priority areas; implement strategic learning and development (training) plans. |
| Infrastructure Enhancements | Ongoing | SO 1 | ▪ Implement the long-term strategies and related governance for Information Management and Information Technology necessary to support our evolving supervisory and regulatory activities.<br>▪ Implement the accommodation plan for OSFI's Toronto office. |
| Changes to International Financial Reporting Standards (IFRS) | Ongoing | SO 1 | ▪ Implement the move to International Financial Reporting Standards (IFRS) by assessing the impact on Federally Regulated Financial Institutions and pension plans, and addressing implications to OSFI's prudential regime and regulatory policies and changes to regulatory returns. |

## Risk Analysis

Enterprise Risk Management

The environment in which OSFI operates presents an array of risks to the achievement of its mandate and objectives. While many of these challenges are consistently present, the extent to which they present a risk to OSFI's objectives varies, depending on economic and financial conditions and the financial industry environment. OSFI's ability to achieve its mandate depends on the timeliness and effectiveness with which it identifies, evaluates, prioritizes, and develops initiatives to address areas where its exposure is greatest.

OSFI's Enterprise-wide Risk Management (ERM) framework divides risks into external and internal categories. The external risk category consists of economic and financial conditions, the financial industry environment, OSFI's legal environment and catastrophic events. External risks arise from events that OSFI cannot influence, but must be able to monitor and respond to in order to mitigate the impact. The internal risk category consists of risks that can broadly be categorized as people, processes, systems, and culture.

Economic, Industry and Regulatory Environment

The Canadian economy is recovering after a sharp contraction in economic activity that began in the middle of 2008, such contraction being preceded and followed by a number of significant international financial shocks. The resumption of growth in the second half of 2009 is supported by monetary and fiscal stimulus, increased household wealth, improving financial conditions, higher commodity prices, and stronger business and consumer confidence according to the Bank of Canada. Recent indicators also point to the start of a global recovery.

The Canadian economy has benefited from well-capitalized and well-diversified financial institutions. According to a recent Standard & Poor's survey, Canadian banks rank among the world's strongest in terms of capital adequacy. Future growth in the economy will depend, to a certain extent, on the strength of these institutions as the recovery takes hold at the same time as significant industrial restructuring is taking place in the economy.

In recent months, a risk related to the global competitiveness of the Canadian economy has materialized. The Canadian dollar has strengthened significantly, and become more volatile, reflecting both uncertainty about the long-term value of the U.S. dollar and an increase in commodity prices. The current strength in the Canadian dollar could offset any favourable developments at this early stage of recovery given the strong trade links between Canada and U.S. economies.

A number of keys sources of risk to the strength and stability of the financial system are noted in the December 2009 Bank of Canada Financial System Review, including the following:

- In the early stages of a recovery, a negative global (financial or economic) shock, or a loss of investor confidence, could re-ignite funding and liquidity pressures.

- The ability of households to service their debt obligations in the context of continued growth in credit and an environment of rising interest rates is an emerging source of risk for the medium term.
- Economic growth is likely to remain subdued for some time and there remains considerable uncertainty about how long it will take for a return to self-sustaining growth in private demand[4]. The risk of a renewed decline in economic growth also remains a key risk.
- There is a risk that the fluctuations in exchange rates that are necessary to address global imbalances (i.e., large and unsustainable current account imbalances) over time are disorderly. Increasing concerns about the sustainability of fiscal positions in several countries is a potential emerging source of risk over the medium term that could hinder this adjustment.

OSFI's ERM process has identified several key risks to the achievement of its mandate and objectives, as follows:

External Risks

**Global Economies and the Industry**
As previously mentioned, the risks posed by the current environment (both at the level of the economy and within the financial sector, and taking into account ongoing global responses) continue to be of concern. Global financial events require that OSFI, like all financial sector regulators and supervisors, must be in a position to respond effectively to a constantly evolving economic and regulatory environment. On a micro-level, prevailing conditions continue to put pressure on the Capital and Accounting Policy Divisions to provide interpretations or to reassess existing guidance to ensure its effectiveness under stressful and evolving conditions. Specific strategies have been put in place within individual Divisions, consistent with specialized responsibilities and current projects, to address ongoing industry developments. Resources continue to be reassigned and priorities realigned as necessary.

**Capital Adequacy**
Work is underway in many countries and in international fora to develop more risk-sensitive capital frameworks for insurance companies as both companies and regulators recognize the need to have more risk sensitive approaches that better reflect the issues arising from increasingly complex products and dynamic markets. As a result, there is a need to improve the risk sensitivity of the Minimum Continuing Capital and Surplus Requirement (MCCSR) and the Minimum Capital Test (MCT), as well as to incorporate changes due to IFRS, while maintaining the integrity of the existing capital tests.

Impending changes to the Basel capital framework for banks and the need to update prudential regulatory frameworks to address recent market events also require banks and regulators to focus more on the measurement of risks and its relation to the overall level of capital adequacy, leverage and liquidity. Due to the breadth of change and the novelty of certain measures, there is a risk that the review, consultation and implementation of these changes will require more resources than expected by both financial institutions and OSFI. It is expected that policies

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[4] Private demand includes consumption/investment/net-exports expenditure (e.g., spending/purchases) and excludes government expenditure.

creating OSFI's current prudential framework will have to be updated to incorporate new issues, information and lessons learned from the times of stress.

Internal Risks

**People Risks**
OSFI's success is dependent upon having employees with highly specialized knowledge, skills and experience to regulate and supervise financial institutions, identify significant issues, and perform accurate risk assessments. OSFI is also being called on to take an increasing leadership role domestically and internationally and to devote resources to further improving financial regulation and considering systemic issues.

A volatile global economy, increasingly complex products, changes to prudential regulation and emerging risks in the industry also mean that OSFI needs to be able to attract, motivate, develop and retain skilled people, particularly those whose skills are in demand in the financial sector. In addition, a significant increase in hiring over the last two years due to market conditions, and normal turnover and retirement rates mean that a continuous learning environment is necessary to enable employees to meet the challenges of this constantly changing environment. Not having sufficient skill sets in place can result in an over reliance on certain key resources, which can have stress-related implications.

**Systems Risks**
Enabling technology and a robust, secure and well-supported Information Technology (IT) infrastructure are key success factors to OSFI in meeting its mandate. OSFI must ensure that the necessary information systems and infrastructure are in place to effectively support its supervisory and regulatory activities. As an IM/IT strategy has now been developed that addresses governance related issues, the risk now shifts to implementation of the strategy. Accordingly, implementation issues need to be closely monitored and evaluated.

**Changes to International Financial Reporting Standards**
The Canadian Accounting Standards Board has decided to adopt IFRS in 2011. This will have an impact both on OSFI, as it relies on audited financial information, and the institutions it regulates. Further, key accounting changes proposed by the International Accounting Standards Board (IASB) will impact FRFIs and OSFI – including matters such as accounting for insurance liabilities, off balance sheet vehicles (de-recognition and consolidation), loan impairment, financial instruments, measurement of fair value and financial statement presentation. As a reliance-based regulator, it is crucial that OSFI understand and, when practicable, influence such changes so that OSFI will continue to be able to perform accurate risk assessments of financial institutions and will be able to adjust its regulatory capital framework as required.

## Expenditure Profile

In accordance with the Treasury Board Secretariat's Guide to the Preparation of Part III of the 2010-2011 Estimates, the financial and human resources presented in this Report on Plans and Priorities reflect OSFI's approved Annual Reference Level Update (ARLU) estimates, which were prepared in early summer 2009. OSFI continues to apply lessons learned from the global financial crisis and focus its regulatory and supervisory resources on key risk areas. During the 2010-2013 planning period, OSFI will continue to improve its ability to identify, monitor and report on emerging risks including system-wide risks that may have a material impact on Canadian financial institutions. To address new and emerging issues and to improve its prudential regulatory framework and practices, OSFI will also continue to actively participate in international fora to represent Canada's interests and to contribute to the development of internationally agreed regulatory standards, and to improve OSFI's domestic prudential regulatory requirements and risk assessment practices. OSFI will devote significant resources in promoting improved risk management practices including: risk identification and capture, capital adequacy, stress testing methodologies, executive compensation practices, liquidity management, and corporate governance in institutions. Accordingly, increases to the resource levels presented in these tables are likely, particularly in the Regulation and Supervision of Federally Regulated Financial Institutions program activity where expertise in critical technical skills to deal with the issues outlined above may be required. At the time of writing this Report on Plans and Priorities, OSFI was completing its business planning process for fiscal years 2010-2011 to 2012-2013. Any changes as a result will be reflected in next year's Report on Plans and Priorities.

| **($ millions except for percentages)** | **Actual Spending** | **Forecast Spending** | **Planned Spending** | | |
|---|---|---|---|---|---|
| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| Gross Expenditures | 90.8 | 105.3 | 109.2 | 123.3 | 116.7 |
| *Change from previous year* | | *15.9%* | *3.7%* | *12.9%* | *(5.4%)* |
| Less: | | | | | |
| Respendable Revenue | 90.2 | 104.4 | 108.3 | 122.4 | 115.8 |
| | | | | | |
| **Total Planned Spending** | **0.6** | **0.9** | **0.9** | **0.9** | **0.9** |

Total gross expenditures in 2009-2010 of $105.3 million are forecasted to increase by 15.9% from the previous year, due primarily to the increase in human resources and the full-year impact in 2009-2010 of employees hired during 2008-2009 (which in combination result in a growth of 64 full-time equivalents), normal inflationary and merit adjustments and continued annual investments in information systems related to the Private Pension Plans program, annual systems updates and renewal of core infrastructure and selected applications.

Total gross expenditures in 2010-2011 of $109.2 million are planned to increase by 3.7% over 2009-10 forecast, mainly due to an increase of 2.3% in full-time equivalents and normal inflationary and merit adjustments. In 2011-2012, OSFI is planning an accommodation upgrade in Toronto in conjunction with the expiry of its lease. This will allow OSFI to utilize its space more efficiently and align its accommodation standards more closely to those established by Public Works and Government Services Canada. The decrease in 2012-2013 is largely due to

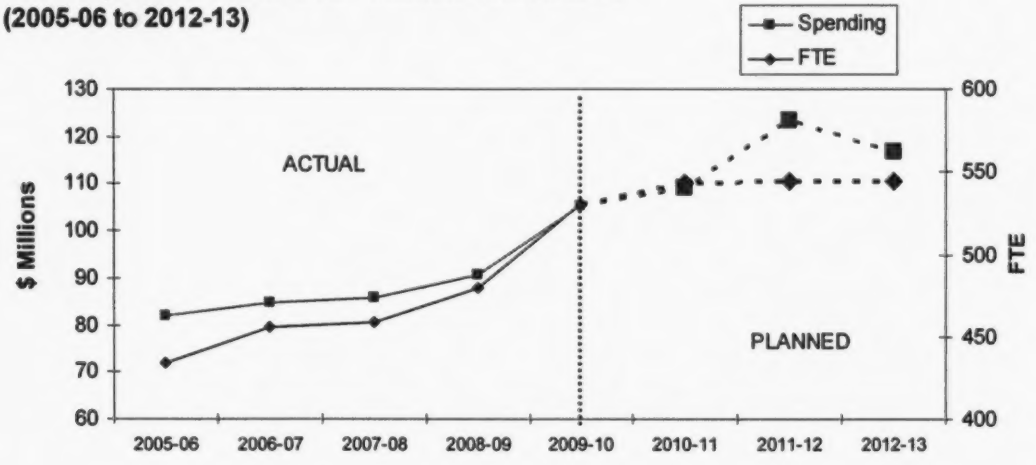
the completion of the accommodation upgrade in the preceding year, partially offset by increases associated with normal inflationary and merit adjustments.

Net of Respendable Revenues, total planned spending is $933 thousand for each of the planning years. This amount is assumed to remain unchanged over the planning horizon but may be adjusted by Treasury Board Secretariat to reflect changes in collective agreements.

The table below provides a trend of OSFI's actual and planned expenditures and full-time equivalents (FTEs) over the fiscal years 2005-2006 to 2012-2013. The growth in FTEs that began in late 2007-2008 through to 2009-2010 was driven by the global financial market turmoil, which began in August 2007, and the serious economic downturn in the following year while financial market turmoil still prevailed. During this period, OSFI added staff in specialized areas in order to more intensely monitor and assess risk in the financial sector.

OSFI continues to re-evaluate its programs to ensure that they contribute to OSFI's mandate and are efficiently managed. In so doing, OSFI has been successful at minimizing ongoing operating cost increases and at judiciously managing its human resources in optimal ways.

**OSFI Expenditures and FTE - Planned and Actuals (2005-06 to 2012-13)**



## Voted and Statutory Items

| Vote # or Statutory Item (S) | Truncated Vote or Statutory Wording | 2008-09 Main Estimates ($ millions) | 2009-10 Main Estimates ($ millions) |
|---|---|---|---|
| 30 | Program Expenditures | 0.9 | 0.9 |
| (S) | Spending of revenues pursuant to subsection 17(2) of the *Office of the Superintendent of Financial Institutions Act* (OSFI Act) | | |
| | **Total** | 0.9 | 0.9 |

This table summarizes Parliament's voted appropriation and OSFI's statutory provision for the spending of any revenues arising out of its operations, pursuant to subsection 17(2) of the OSFI Act.

OSFI receives an annual parliamentary appropriation pursuant to section 16 of the OSFI Act to support the Office of the Chief Actuary. This parliamentary appropriation is to defray the expenses associated with the provision of actuarial services relating to various public sector employee pension and insurance plans, including those for the Canadian Armed Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament.

For fiscal year 2010-2011, this appropriation is set at $933 thousand and is currently assumed to remain unchanged in both 2011-2012 and 2012-2013; however, it may be adjusted by Treasury Board Secretariat to reflect changes in collective agreements.

OSFI also continues its participation in the Budget 2009 initiative to enhance federal public service student employment. This program provides partial funding to departments and agencies to promote the hiring of additional students into the federal public service. OSFI was granted $14 thousand for this initiative in both 2009-2010 and 2010-2011.

# Section II – Analysis of Program Activities by Strategic Outcome

The following section describes OSFI's program activities and identifies the expected results, performance indicators and targets for each of them. This section also explains how OSFI plans on meeting the expected results and presents the financial and non-financial resources that will be dedicated to each program activity.

## 2.1 Strategic Outcome One – *A safe and sound Canadian financial system.*

| **2.1.1 - Program Activity:** Regulation and Supervision of Federally Regulated Financial Institutions | | | | | |
|---|---|---|---|---|---|
| **Human Resources (FTEs) and Planned Spending ($ millions)** | | | | | |
| **2010–11** | | **2011–12** | | **2012–13** | |
| **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** |
| 328 | 54.6 | 330 | 56.5 | 330 | 58.5 |

| **Program Activity Expected Results** | **Performance Indicators** | **Targets** |
|---|---|---|
| Protect depositors and policy holders while recognizing that all failures cannot be prevented. | Percentage of estimated recoveries on failed institutions. (amount recovered per dollar of claim) | 90% |
| Accurate risk assessments. | Percentage of knowledgeable observers[5] who agree that their institution's Composite Risk Rating is appropriate. | 70% |
| Timely and effective intervention and feedback. | Time to issue Supervisory Letter. (within prescribed target days) | 80% of letters are issued within 45 days |
| Regulations, guidance and other rules that balance prudential considerations and the need to compete. | Percentage of knowledgeable observers[5] who rate OSFI as good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete. | 50% |

[5] Senior Executives and professionals who act on behalf of federally regulated financial institutions.

| Program Activity Expected Results | Performance Indicators | Targets |
|---|---|---|
| Regulations, guidance and other rules which are clear and scrutinized by industry. | Percentage of knowledgeable observers[5] that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation.<br>AND/OR<br>Percentage of knowledgeable observers[5] who rate OSFI as good or very good at consulting with industry on the development of regulations, guidelines and other rules. | 75%<br><br>60% |
| Prudentially sound decisions which are transparent. | Percentage of knowledgeable observers[5] who understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process. | 85% |
| Regulatory approvals which are timely. | Percentage of completed applications for regulatory approvals that are processed within established performance standards. | 90% |

**Program Activity Summary**

This program involves regulating and supervising FRFIs to determine whether they are in sound financial condition and are complying with their governing law and supervisory requirements; monitoring the financial and economic environment to identify issues that may impact these institutions negatively; and intervening in a timely manner to protect depositors and policyholders from undue loss, while recognizing that management and boards of directors are ultimately responsible, and that financial institutions can fail.

Costs for this program are recovered through base assessments and user fees and charges paid by the FRFIs covered under the *Bank Act*, *Trust and Loan Companies Act*, *Insurance Companies Act* and *Cooperative Credit Associations Act*. OSFI also receives revenues for cost-recovered services to provinces, for which it provides supervision of their institutions on a fee for service basis.

This program has three sub-activities:

1. Risk Assessment and Intervention: This program involves the administration and application of an effective supervisory process to assess the safety and soundness of regulated financial institutions by evaluating an institution's risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations. This program includes activities to monitor and supervise financial institutions; monitor the financial and economic environment to identify emerging issues; and intervene by exercising supervisory powers to take, or require management or boards to take, necessary corrective measures in a timely manner to protect depositors and policy holders, while recognizing that all failures cannot be prevented.
2. Regulation and Guidance: This program involves advancing and administering a regulatory framework of rules and guidance that promotes the adoption by regulated financial institutions of sound risk management practices, policies and procedures designed to plan, direct and control the impact on the institution of risks arising from its operations. This program encompasses the issuance of regulations and guidance, input

into federal legislation and regulations affecting financial institutions; contributions to accounting, auditing and actuarial standards; and involvement in a number of international regulatory activities.

3. Approvals and Precedents: Federally regulated financial institutions are required to seek regulatory approval for certain types of transactions. This program: evaluates and processes applications for regulatory consent; establishes positions on the interpretation and application of the federal financial institutions legislation, regulations and guidance; identifies precedential transactions that may raise policy or precedent-setting issues and develops recommendations that recognize the need to allow institutions to compete effectively while undertaking reasonable risks that do not unduly impact OSFI's primary stakeholders, the policyholders and depositors of FRFIs.

**Planning Highlights**

In order to achieve the expected result, OSFI plans to undertake the following activities:

- Continue to:
  - improve our ability to identify, monitor and report on emerging risks including system-wide risks that may have a material impact on the Canadian financial system, via enhanced international and domestic monitoring, and research and intelligence gathering;
  - update and implement changes to the Supervisory Framework;
  - perform selected comparative reviews of FRFIs in key risk areas.
- Implement enhanced liquidity assessment and monitoring practices.
- Internationally, continue to participate in discussions (such as the FSB, the BCBS, the International Association of Insurance Supervisors, and Senior Supervisors Group) to identify and respond to the key issues arising from global financial events, including future changes to regulatory approaches and requirements, and to make recommendations for action.
- Domestically, continue work with FISC partners and the regulated industries on similar issues in the Canadian context.
- Maintain strong communications on, and continue to promote improved risk management practices including: stress testing methodologies, executive compensation practices, liquidity management, and corporate governance in institutions, in order to strengthen individual FRFI preparedness and overall market resilience.
- Continue to:
  - actively participate in international fora (BCBS, G20, and FSB) to contribute to the development of internationally agreed bank capital standards;
  - review and improve domestic regulatory capital requirements and assessment practices through steps such as stress testing and implementing guidance agreed at the international level while taking into account identified emerging risks;
  - enhance risk sensitivity of capital requirements in the insurance sector;
  - ensure that capital adequacy rules are interpreted and operationalized effectively and consistently.

- Implement the move to IFRS by assessing the impact on FRFIs and pension plans, and by addressing implications to OSFI's prudential regime, regulatory policies, and regulatory returns.

**Benefits for Canadians**

A properly functioning financial system, in which consumers and others (inside and outside Canada) have a high degree of confidence, makes a material contribution to Canada's economic performance. OSFI is the primary regulator and supervisor of all federally registered financial institutions, numbering about 450. The achievement of OSFI's strategic outcomes, which are shared by partners within government and the private sector, provides an essential foundation for a productive and competitive economy.

OSFI supports the government's priority for a safe and secure world by contributing to the fight against terrorism financing and money laundering. OSFI's focus relates to prudential matters and, on behalf of Financial Transactions Reports Analysis Centre of Canada (FINTRAC), the review of the operation of financial institution programs to comply with legislative anti-money laundering / anti-terrorism financing requirements.

| 2.1.2 - Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans | | | | | |
|---|---|---|---|---|---|
| **Human Resources (FTEs) and Planned Spending ($ millions)** | | | | | |
| **2010–11** | | **2011–12** | | **2012–13** | |
| **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** |
| 27 | 5.3 | 27 | 5.3 | 27 | 5.1 |

| Program Activity Expected Results | Performance Indicators | Targets |
|---|---|---|
| Protect the financial interests of federally regulated private pension plan members and beneficiaries. | Percentage of estimated recoveries on pension plans that have terminated under-funded. | 85% |
| Regulations, guidelines and other rules which are clear and balanced. | Percentage of knowledgeable observers[6] that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation.<br>AND/OR<br>Percentage of knowledgeable observers[6] who rate OSFI as being good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between interests of plan sponsors and plan members. | 75%<br><br>50% |
| Regulatory approvals which are timely and transparent. | Percentage of Knowledgeable Observers[6] that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process.<br>AND/OR<br>Percentage of completed applications for regulatory approvals that are processed within established benchmarks. | 60%<br><br>90% |

**Program Activity Summary**

This program involves regulating and supervising federally regulated private pension plans to determine whether they are meeting minimum plan funding requirements and are complying with their governing law and supervisory requirements. This program provides risk assessments of pension plans covering employees in federally regulated areas of employment; timely and effective intervention and feedback to protect the financial interests of plan members and beneficiaries from undue loss, while recognizing that plan administrators are ultimately responsible, and that plans can fail; a balanced relevant regulatory framework; and a prudentially effective and responsive approvals process. This program incorporates risk assessment and intervention, regulation and guidance, and approvals and precedents related to federally regulated private pension plans under the *Pension Benefits Standards Act*, 1985. The costs for this program are recovered from pension plan fees based on the number of members in each federally regulated pension plan.

[6] Plan Administrators and professionals who act on behalf of pension plans.

**Planning Highlights**
In order to achieve the expected result, OSFI plans to undertake the following activities:

- Develop and implement systems to support the pensions risk assessment framework published in 2009;
- Assess the need to review OSFI guidance and reporting requirements for pension plans in light of changes to Canadian Generally Accepted Accounting Principles (GAAP) to reflect aspects of IFRS;
- Update and enhance guidance for pension plans to support planned amendments to the legislation and regulations and new supervisory priorities;[7]
- Refine the monitoring of risks facing pension plans, including the impact of rule changes, and adjust supervisory processes as warranted.

**Benefits for Canadians**
OSFI supports the government's priority for income security for Canadians. OSFI supervises some 1,379 federally regulated private pension plans in Canada, which cover 612,000 active members as at March 31, 2009. OSFI works to promote responsible pension plan governance and actuarial practices. OSFI's actions and decisions affect plan members as well as the sponsors and administrators of the plans.

[7] This includes guidance on stress testing, investments, disclosure guideline as a result of changes to the *Pension Benefits Standards Act, 1985*.

| 2.1.3 - Program Activity: International Assistance | | | | | |
|---|---|---|---|---|---|
| **Human Resources (FTEs) and Planned Spending ($ millions)** | | | | | |
| **2010–11** | | **2011–12** | | **2012–13** | |
| **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** |
| 5 | 1.6 | 5 | 1.7 | 5 | 1.8 |

| Program Activity Expected Results | Performance Indicators | Targets |
|---|---|---|
| Emerging market economies are more informed about current approaches to regulatory and supervisory systems, and deploy them to the extent possible. | Percentage of respondents[8] that rate the assistance / presentations provided as relevant to their work. | 80% |
| Technical assistance (e.g., workshops, advice, on-site needs assessments) | Percentage of respondents[8] who rate OSFI trainers as competent or highly competent. | 90% |

**Program Activity Summary**

This program incorporates activities related to providing assistance to selected developing and emerging market economies to improve their supervisory systems in line with international banking and insurance supervisory standards, thereby enhancing the stability of the global financial system. In order to achieve efficiency and economy in program delivery and training of supervisors from many different jurisdictions, this program also collaborates with a number of regional banking and insurance associations and other technical assistance providers such as the Financial Stability Institute. The costs for this program are recovered via Memoranda of Understanding between OSFI and the Canadian International Development Agency.

**Planning Highlights**

In order to achieve the expected result, OSFI plans to undertake the following activities:

- Strategically concentrate its activities on a small number of target / partner countries.

**Benefits for Canadians**

OSFI supports the government's priority for a safe and secure world through international cooperation. Canada and other G-7 governments recognize that upgrading the supervisory capacity of emerging market supervisory authorities can enhance the stability of the global financial system. Canada plays an important role in this regard, in part through OSFI's technical assistance program, which helps selected emerging market economies to improve the supervisory systems for their financial institutions in line with international banking and insurance supervisory standards.

[8] Foreign regulators who receive technical assistance from OSFI's International Advisory Group.

## 2.2 Strategic Outcome Two – *A financially sound and sustainable Canadian public retirement income system.*

| 2.2.1 - Program Activity: Actuarial Valuation and Advisory Services | | | | | |
|---|---|---|---|---|---|
| **Human Resources (FTEs) and Planned Spending ($ millions)** | | | | | |
| **2010–11** | | **2011–12** | | **2012–13** | |
| **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** |
| 31 | 4.3 | 31 | 4.2 | 31 | 4.4 |

| Program Activity Expected Results | Performance Indicators | Targets |
|---|---|---|
| Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice. | Adequacy of professional experience of the Chief Actuary and his staff.<br>AND/OR<br>Compliance with Canadian and international professional standards. | Unanimous agreement amongst peers |
| Accurate and high quality actuarial valuations inform CPP and OAS stakeholders and Canadians of the current and projected financial status of the Plan and Program. | Reviews are comprehensive (methods, assumptions, analysis)<br>AND/OR<br>Percentage of the recommendations within the scope and influence of the OCA that are implemented before the next peer review. | Unanimous agreement amongst peers<br><br>80% |
| CPP and OAS Triennial Actuarial Reports | Timeliness of tabling in Parliament of Reports on Canada Pension Plans & Old Age Security. | 100% by the deadline |
| Accurate and high quality actuarial valuations of Public Pension and Insurance Plans provided to departments to inform design, funding and administration of plans. | Reviews are comprehensive (methods, assumptions, analysis).<br>AND/OR<br>Actuarial opinion is appropriate. | Unanimous agreement amongst peers |
| Public Sector Triennial Actuarial Reports | Timeliness of tabling in Parliament of Reports on Public Pension Plans. | 100% by the deadline |
| Accurate and high quality actuarial valuations of the Canada Student Loans Program inform the Department of Human Resources and Skills Development Canada (HRSDC) of the future costs and provision rates of the program. | Actuarial valuations of the Canada Student Loans Program are comprehensive (accurate, high quality) and informative of future costs and provision rates of the program. | Annual renewal of the MOU with HRSDC |
| Actuarial Report on the Canada Student Loans Program | Timeliness of tabling in Parliament of Reports on Canada Student Loans. | 100% by the deadline set by HRSDC |

**Program Activity Summary**

The federal government and the provinces, through the Canada Pension Plan (CPP), public sector pension arrangements and other social programs have made commitments to Canadians and have taken on emanated responsibility for the financing of these commitments. Some are long-term and it is important that decision-makers, Parliamentarians and the public understand these and the inherent risks. This program plays a vital and independent role in this process. It provides checks and balances on the future costs of the different pension plans under its responsibilities.

This program provides a range of actuarial services, under legislation, to the CPP and some federal government departments. It conducts statutory actuarial valuations of the CPP, Old Age Security (OAS) and Canada Student Loans programs, and pension and benefits plans covering the Federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police (RCMP), federally appointed judges, and Members of Parliament.

The Office of the Chief Actuary (OCA) is funded by fees charged for its actuarial valuation and advisory services and by an annual parliamentary appropriation.

This program has three sub-activities:

1. Services to the CPP and OAS Program: This program involves the conduct of statutory actuarial valuations of the CPP and OAS Program. These valuations estimate the financial status of these plans and programs as required by legislation. This program estimates long-term expenditures, revenues and current liabilities of the CPP and estimates long-term future expenditures for OAS programs. Pursuant to the *Canada Pension Plan Act* and the *Public Pensions Reporting Act*, the OCA prepares statutory triennial actuarial reports on the financial status of these programs, as required by legislation.
2. Services to Public Sector Pension and Insurance Programs: This program involves the conduct of statutory actuarial valuations of various federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans as required by legislation. Pursuant to the *Public Pensions Reporting Act*, this program involves preparing statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament. This program supports plan members, thereby serving the public interest, by ensuring good governance of the plan, appropriate disclosure in the actuarial reports and contributing to the overall accountability of the plan sponsor to members. This program also involves the provision of sound actuarial advice that assists different government departments in the design, funding and administration of these plans. As part of this program, the Chief Actuary submits the actuarial reports to the President of Treasury Board.
3. Services to the Canada Student Loans Program (CSLP): Pursuant to the *Student Financial Assistance Act,* as amended by the *Budget Implementation Act, 2009,* this program involves the conduct of statutory actuarial valuations of the CSLP. The program also involves the preparation of a statutory actuarial report of the CSLP by evaluating the

portfolio of loans and the long-term costs of the program. As part of this program, the Chief Actuary submits the actuarial report to the minister of Human Resources and Skills Development.

**Planning Highlights**
In order to achieve the expected result, OSFI plans to undertake the following activities:

- Tabling the Actuarial Report for the CSLP, CPP, Judges, Members of Parliament, and RCMP part IV.

**Benefits for Canadians**
Canada has set in place a public pensions system that is expected to be sustainable and affordable well into the future in the face of changing demographic conditions. While OSFI does not supervise public pensions, the OCA does do statutory actuarial reports on various public pension programs, to come to conclusions about sustainability under certain assumptions. In this way, the OCA provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibilities.

## 2.3 Program Activity: Internal Services

| 2.3 - Program Activity: Internal Services | | | | | |
|---|---|---|---|---|---|
| **Human Resources (FTEs) and Planned Spending ($ millions)** | | | | | |
| **2010–11** | | **2011–12** | | **2012–13** | |
| **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** | **FTEs** | **Planned Spending** |
| 152 | 43.4 | 151 | 55.6 | 151 | 46.9 |

| Program Activity Expected Results | Performance Indicators | Targets |
|---|---|---|
| OSFI's financial statements accurately reflect the financial position of OSFI. | An audit by the Office of the Auditor General attests that OSFI's financial statements present fairly, in all material respects, the financial position of OSFI at the year-end and the results of its operations and its cash flows for the year in accordance with GAAP. | N/A |
| OSFI maintains or improves its strong performance on its Results-based Management Accountability Framework, (MAF) as assessed by Treasury Board from time to time. | Treasury Board's next assessment of OSFI's MAF indicates equal or improved ratings, including in the three areas where, in the last assessment, Treasury Board suggested a need to focus. | N/A |
| Operational units within program support are efficient and effective, i.e. deliver services at reasonable cost and turn-around time relative to peers.<br>AND<br>Operational units are operating within applicable acts, policies and guidelines. | Treasury Board's audits of OSFI, in the scope of its government-wide Horizontal Audits, confirm no material findings for OSFI.<br>AND<br>Internal Audits of reviewed units find that controls are in place and units are operating within applicable acts, policies and guidelines, and/or identifies areas for action. | N/A |
| A stable, committed and skilled workforce. | Knowledgeable observers[9] are of the view that OSFI staff knowledge is good or very good.<br>AND/OR<br>Voluntary turnover reports are satisfactory.<br>AND/OR<br>Employee Survey finds that OSFI employees are committed.<br>AND/OR<br>The consolidated mean score of the Employee Survey has increased since the last survey. | N/A |
| Multi-year Information and Technology Renewal (ITR) Program | ITR Program is implemented as per established timelines and targeted results are achieved. | N/A |

[9] Senior Executives, Plan Administrators, and professionals who act on behalf of federally regulated financial institutions and pension plans.

| | | |
|---|---|---|
| remains dynamic and evolves to accommodate OSFI's changing strategic directions, priorities and resource constraints. | | |

**Program Activity Summary**

OSFI's Internal Services program activity supports its two strategic outcomes. Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not to those provided specifically to a program.

**Planning Highlights**

In order to achieve the expected result, OSFI plans to undertake the following activities:

- Identify changing human resources requirements to: ensure timely availability of qualified staff and the assignment of these resources based on identified risks and priority areas; implement strategic learning and development (training) plans;
- Implement the long-term strategies and related governance for Information Management and Information Technology necessary to support our evolving supervisory and regulatory activities;
- Implement the accommodation plan for OSFI's Toronto, Ontario office.

# Section III: Supplementary Information

## 3.1 List of Tables

The following tables are located on the Treasury Board Secretariat website:

- Green Procurement
- Internal Audits
- Sources of Respendable and Non-Respendable Revenue
- Summary of Capital Spending by Program Activity

## 3.2 Other Items of Interest

- OSFI Plan and Priorities 2010-13